

BRIEFING PAPER

SECOND COMMITMENT PERIOD OF THE KYOTO PROTOCOL (KP2)

BACKGROUND

In 1997, the third Conference of Parties (COP) adopted the Kyoto Protocol. One of the main outcomes was the commitment of thirty-seven developed countries and the European Union, the so-called Annex B countries¹, to limit their greenhouse gas (GHG) emissions during the 2008-2012 period to an average level of 5% below their 1990 emissions. The Kyoto Protocol entered into force after its ratification by Russia in 2005.

Negotiations on a second commitment period post-2012 (KP-CP2) started in Bali in 2007 with the launch of the *Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol* (AWG-KP). However, it was not until December 2011, at COP 17 in Durban, that a decision was taken. The AWG-KP has been in charge of defining the rules and preparing the end of its mandate currently planned for COP 18 this December in Doha.

In Durban, nitrogen trifluoride (NF₃) was added to the Annex A of the Kyoto Protocol listing the greenhouse gases covered and new accounting rules for land use, land-use change and forest (LULUCF) were adopted for the second commitment period.

In September 2012, the co-facilitators and vice-chair of AWG-KP released non-papers on proposed amendments to the Kyoto Protocol and the decision adopting them. In October 2012, the Chair of AWG-KP released a proposal to facilitate negotiations.

KEY ISSUES

Involved countries and commitments

As early as December 2011, several developed countries (Japan, Russia and Canada) articulated their opposition to participate in a second commitment period of the Kyoto Protocol. These countries alone represented 40% of emissions from Annex B countries in 2009². Canada took further action and withdrew from the Protocol in December 2011. This decision will enter into force on the 15 December 2012.

In 2012, other Annex B countries have submitted *Quantified Emission Limitation and Reduction Commitments or QELRCs*. These submissions should reflect their commitments under KP-CP2. All Annex B countries' submissions have been made for the 2013-2020 period. For use as a reference in terms of ambition, the Alliance of Small Island States (AOSIS) has proposed its own calculation of the commitments necessary for Annex B countries for the 2013-2017 period in order to achieve the objective proposed by the IPCC of limiting long-term temperature increases to 2.0 to 2.4°C above pre-industrial levels (

Table 1).

¹ Annex B countries mainly correspond to developed countries (Annex I of the UNFCCC). There are a few exceptions of countries in Annex B but not in Annex I, and vice versa.

² Excluding the United States who did not ratify the Protocol.

Table 1 – Proposed emission reductions for the CP2 by Annex B countries

Country	CP1 commitment (base year 1990)	Willingness to participate in KP-CP2	Change in base year for the CP2	Commitment submitted for 2013-2020	AOSIS proposal for 2013-2017
Belarus		YES	NO	-8%	-35%
Croatia¹	-5%	YES	NO	-20%	-19%
European Union (27)¹	-8% ²	YES	NO	-20%	-19%
Iceland¹	+10%	YES	NO	-20%	-19%
Kazakhstan		YES	?	?	-27%
Liechtenstein	-8%	YES	NO	-16% / -22%	-19%
Monaco	-8%	YES	?	?	-19%
Norway	+1%	YES	NO	-16% / -19%	-19%
Switzerland	-8%	YES	NO	-15.8% / -22.3%	-19%
Australia	+8%	?	?	?	-7%
New Zealand	0%	?	?	?	-10%
Ukraine	0%	?	?	?	-54%
Canada³	-6%	NO			
Japan	-6%	NO			
Russian Federation	0%	NO			

¹ The European Union, Croatia and Iceland want to fulfill their commitments jointly in application of the article 4 of the Kyoto Protocol.

² 8% was the commitment endorsed by EU-15 and some other European countries but was not the same for all the 27 countries of EU.

³ Canada's withdrawal from the Kyoto Protocol will enter into force in December 2012.

All Annex B countries who articulated their willingness to commit to a KP-CP2 have kept the same base year used for the CP1 (1990 in most cases). New Zealand and Australia have expressed emission reduction objectives in line with their 2020 targets announced in 2009 in Copenhagen. However, they have not yet submitted any QERLC for CP2.

Submitted QELRCs represent emission reductions between 15.0% and 16.2% on average below 1990 levels on the 2013-2020 period. In comparison, the AOSIS proposal sets a -22.7% target on the 2013-2017 period. Moreover submitted QELRCs only cover 17% of global GHG emissions. AOSIS has also proposed the rejection of any emission reduction target that is above a country's minimum emissions level observed in 1990 or its most-recently verified year of emissions inventory data.

Duration

The Durban conference did not come to an agreement concerning the duration of KP-CP2. In 2012, Parties have thus to decide if the CP2 should last 5 years (2013-2017) as suggested by developing countries or 8 years (2013-2020) as proposed by developed countries. As the Durban Platform is supposed to lead to a global agreement starting from 2020, the 8-year length would prevent a gap in emissions reductions commitments. However, developing countries including AOSIS have raised concern about "locked-in" targets that they consider not ambitious enough.

To solve this issue, several countries including AOSIS and the European Union have spoken in favor of a mid-term review of Annex B QELRCs. The EU also put forward the “*possibility for a Party listed in Annex B to strengthen its [commitments] through a simplified procedure*”. The EU suggests that the planned 2013-2015 review under the Convention would be a good occasion to increase the level of ambition under the Kyoto Protocol.

Use of market instruments

Use by Annex B countries not involved in CP2

Developed countries which have pulled out of CP2 would like to remain eligible for participating in the Kyoto flexibility mechanisms, including:

- Participation in the AAU³ trading system;
- Continued possibility to benefit from Joint Implementation (JI) thanks to the continued eligibility of ERUs issued in these countries; eligibility might be subject to restrictions based on the registration date of the underlying project and/or the period for which emission reductions are credited.
- Continued possibility to use CERs

Developing countries have expressed a strong opposition to this idea and wish to reserve use of the Kyoto Mechanisms for the CP2 for Annex B countries that have set mitigation commitments for this period.

Authorization to use AAU surplus from CP1

It is likely that a number of Annex B countries will have surpluses of Kyoto allowances or “hot air” (AAUs) and credits (CERs, ERUs, etc.) at the end of the CP1. This is particularly important for the former Soviet Union and Eastern European countries. One of the issues to be decided at Doha is the condition of use of these surpluses during CP2. Several options have been proposed:

- No possibility of carrying-over allowances or credits
- Limiting carrying-over to a percentage of committed emissions.
- Establishing unit-dependent rules. For each country :
 - Limiting the maximum of CERs that can be carried-over to 2.5% of the distributed AAUs for the CP2;
 - Transferring ERU and AAU surpluses to a *Previous Period Surplus Reserve*. A limit on the amount of transfers is also proposed. Allowing trade of a part of these allowances is mentioned by some Parties.

The possibility of widespread carry-over of units from CP1 runs the risk of lowering the need for domestic efforts in Annex B countries involved in CP2.

Legal arrangements for continuity between CP1 and CP2

The legal form of transition from the CP1 to the CP2 remains unclear and several options are still on the table. To ensure legal continuity, QELRCs from developed countries have to be legally-binding as

³ Assigned Amount Units. Kyoto units allocated to countries according to their emissions commitments.

of 1 January 2013, when the second commitment period is set to begin. Adopting an amendment to the Kyoto Protocol could give these commitments the required legal force. However, if an amendment is adopted in Doha in December 2012, it will require ratification by Parties. A legal gap is therefore expected as countries will not have sufficient time for ratification through their domestic processes.

A series of options could be employed to ensure legal continuity, including a provisional entry into force of the amendment pending final ratification (as it was the case with some other international treaties). However, some countries have noted internal legislative difficulties with this option. Other options, such as unilateral declarations or a COP/CMP decision, are also under discussion. The challenge is to provide legal certainty while taking into consideration national frameworks.

KEY ISSUES IN DOHA

During the Doha conference (27 November – 07 December 2012), the Kyoto Protocol Parties will have to agree on a number of issues ranging from the ambition of GHG emission reduction commitments to the use of market mechanisms. A full list of issues is listed in Annex 1. These decisions will be crucial in establishing the framework for the second commitment period set to begin on 1 January 2013.

IMPLICATIONS TO DEVELOPING COUNTRIES

The second commitment period of the Kyoto Protocol preserves the distinction between developed and developing countries. It allows for the retention of binding emission reduction objectives for the coming 5 or 8 years, even if the scope of covered emissions is reduced by a low level of participation from developed and emerging countries.

Coming to an agreement concerning the level of ambition, carry-over rules and the number of concerned countries constitutes a strong political signal for further commitment and negotiations. On a more immediate note, an agreement – or lack thereof – could influence low-carbon strategies in developing countries through impacts on the demand for CERs - and thus their price. Nevertheless a significant increase in CER demand is unlikely.⁴

REFERENCES

AWG-KP Proposal by the Chair to facilitate negotiations

<http://unfccc.int/resource/docs/2012/awg17/eng/crp01.pdf>

Analysis of quantitative implications of options for addressing the surplus and carry-over of Kyoto units for the second and subsequent commitment period of the Kyoto Protocol

- AOSIS, African and Brazilian proposals

http://unfccc.int/files/meetings/ad_hoc_working_groups/kp/application/pdf/carryover_quantitative_illustrative_examples_for_website_posting_17aug2012.pdf

- G77-China proposal

http://unfccc.int/files/meetings/ad_hoc_working_groups/kp/application/pdf/awgkp_carryover_050912.pdf

⁴ See Bellassen, V., Stephan, N. and Leguet, B. (2012). *Will there still be a market price for CERs and ERUs in two years time?* CDC Climat Research. Climate Brief n°13 <http://www.cdclimat.com/Climate-Brief-no13-Will-there-still-be-a-market-price-for-CERs-and-ERUs-in-two-years-time.html>



Analysis of quantified emission limitation and reduction commitments expressed as percentage of base year and absolute emission levels

http://unfccc.int/files/meetings/ad_hoc_working_groups/kp/application/pdf/tableqelrcs_fromparties_for_website_posting_17aug2012_cln.pdf

Table 2 - Compilation of issues to be addressed at COP 18 in Doha

Issues to be tackled in Doha	Options
<p>Countries involved and commitments</p> <ul style="list-style-type: none"> - Participation pending for a few countries - Ambition of commitments 	<ul style="list-style-type: none"> - Formal engagement of these countries to fulfill their commitment under KP-CP2 - Allow the late submission of QELRC - Unilateral engagement to adopt emission reduction objectives for 2020 outside the KP - Annex B countries endorse the submitted QELRCs - Annex B countries decide to enhance their ambition - Commitments are automatically limited to an amount linked with 1990 levels and KP-CP1 actual emissions
<p>Duration of the KP-CP2</p> <ul style="list-style-type: none"> -Length - Mid-term review - Possibility for Annex B countries to enhance their mitigation ambitions 	<ul style="list-style-type: none"> - 5-year period (2013-2017) - 8-year period (2013-2020) - Establishment of a mid-term review - No official mid-term review set under the UNFCCC - No change - Allow Annex B countries at any moment to transfer units to a cancellation account
<p>Use of market instruments</p> <ul style="list-style-type: none"> - Participation in the flexibility mechanisms for Annex B countries - Use of surplus Kyoto units from CP1 for compliance under CP2 - If authorized, limitation of use of CERs from CP1 - If authorized, limitation of use of AAUs and ERUs from CP1 	<ul style="list-style-type: none"> - All Annex B countries that have ratified the Kyoto protocol can use/issue/transfer Kyoto units - For CP2, only Annex B countries that have a QERLC for the CP2 and that apply amendments to the KP can: <ul style="list-style-type: none"> - use CERs; - transfer/acquire ERUs under article 6; - transfer/acquire ERUs, CERs, tCERS, ICERs, AAUs or RMUs under article 17. - All CP1 units that are not used for the compliance under the CP1 are cancelled - ERUs and AAUs units that are not used for compliance under the CP1 are transferred to a <i>Previous Period Surplus Reserve</i> (PPSR). CERs can be carried-over the second commitment period. - No limitation - Only an amount of CERs under [2.5%] of allocated AAUs for CP2 can be carried over - No limitation - A part of ERUs and AAUs can be transferred to the <i>Previous Period Surplus Reserve</i> (PPSR) and can be used only for compliance under CP2 - A part of ERUs and AAUs are transferred to the <i>Previous Period Surplus Reserve</i> (PPSR) and can be used for compliance and trade under CP2
<p>Legal arrangements</p> <ul style="list-style-type: none"> - Continuity between CP1 and CP2 - Closing AWG-KP 	<ul style="list-style-type: none"> - Amendments to the Kyoto Protocol, provisional application and ratification process - Amendments to the Kyoto Protocol, however resulting in a legal gap for part of Annex B countries depending on local legislations and ratification - CMP decision - The COP decides that the work of AWG-KP ends in December 2012 - The COP decides to extend the work of AWG-KP.